

Message Text

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ORIGIN NEA-10

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FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD

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E.O. 11652: GDS

TAGS:EFIN, PK

SUBJECT: PAKISTAN DEBT RESCHEDULING

REF: A) STATE 107221 B) ISLAMABAD 4171 C) ISLAMABAD 4172

1. CONTENTS OF REFTELS NOTED AND APPRECIATED. WE DO NOT BELIEVE THERE IS AS WIDE A DIVERGENCE OF VIEWS AS REFTELS MAY SUGGEST. ONE OF THE CARDINAL POINTS MADE IN DECISION WHICH LED UP TO PREPARATION OF REF A WAS THE NEED TO HANDLE THE GOP DEBT RESCHEDULING MATTER IN SUCH A WAY AS TO AVOID EMBARRASSING PAKISTAN GOVERNMENT NEEDLESSLY.

2. AS WAS STATED IN REF A, ITS IMPORTANT TO RECOGNIZE THAT GOP HAS NOT YET MADE ITS CASE FOR DEBT RESCHEDULING TO ANY CREDITOR. ON BASIS OF INFORMATION AVAILABLE, THERE
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IS NO EVIDENCE THAT GOP IS ON VERGE OF IMMINENT DEFAULT OF CONSORTIUM DEBT OR HAS CASE BEEN MADE WHEN DEFAULT LIKELY TO OCCUR. ON APRIL 29 IT IS UNLIKELY GOP WILL PROVIDE THE DETAILED INFORMATION ON ITS FUTURE BUDGETS, DEVELOPMENT PLANS, AND POLICY INTENTIONS THAT WILL ENABLE CONSORTIUM MEMBERS TO FULLY UNDERSTAND AND BE COMPLETELY SYMPATHETIC TO PAKISTAN'S DEBT RESCHEDULING PROBLEMS. THIS SITUATION

WILL PLACE CREDITORS IN AN AWKWARD POSITION AT JUNE 2 MEETING REGARDING HOW THEY CAN BEST RESPOND TO THE GOP

REQUEST AND, IN TURN, PLACE GOP IN EMBARRASSING POSITION OF NOT FULLY JUSTIFYING ITS CASE TO CREDITOR SATISFACTION.

3. WE PREFER TO EXAMINE THE BOP SITUATION IN CONTEXT OF ITS LONG-TERM POLICY COMMITMENTS AND DEVELOPMENT STRATEGY. WE DO NOT BELIEVE SUFFICIENT INFORMATION CAN AND WILL BE MADE AVAILABLE TO SYSTEMATICALLY ADDRESS THE GOP DEBT PROBLEM IN THOSE TERMS ON JUNE 2. NOTE THAT THIS IS FOURTH TIME IN SIX YEARS THAT WE HAVE BEEN ASKED TO RESCHEDULE GOP DEBT AND IT IS OBVIOUS TO US THAT A LONGER RANGE EXAMINATION OF THE COUNTRY'S ECONOMIC AND PAYMENTS SITUATION IS REQUIRED. THEREFORE, WE PLAN TO SEEK CONSENSUS AMONG AS MANY CONSORTIUM COUNTRIES AS POSSIBLE TO AVOID ADDRESSING THE ISSUE UNTIL LATER IN THE YEAR AND AT A TIME WHEN GOP CAN PROVIDE DETAILED PICTURE OF ITS DEBT SITUATION AND RELATED MATTERS.

4. HOWEVER, IT MAY WELL BE THAT MAJORITY OF OTHER CONSORTIUM COUNTRIES WILL BE PREPARED TO RESPOND ON JUNE 2. WE HAVE NO PROBLEM IN SITTING IN MEETING WHERE GOP WILL STATE POSITION FOR DEBT RESCHEDULING. SINCE USG WOULD NOT BE ABLE TO AGREE TO DEBT RESCHEDULING AT JUNE 1-2 MEETING, CONFIDENTIAL

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LEADER OF U.S. DELEGATION WOULD, AS SUGGESTED IN REF A, NOTE WE DO NOT BELIEVE A CASE HAS YET BEEN MADE THAT PAKISTAN HAS AN ACUTE DEBT SERVICING PROBLEM. WE WOULD ALSO ACKNOWLEDGE UNCERTAINTIES REGARDING POLICY COMMITMENTS, DEVELOPMENT STRATEGY AND PRESENT AND MEDIUM-TERM EXTERNAL PAYMENTS POSITION OF GOP. HE CAN AS WELL INDICATE WILLINGNESS TO EXAMINE THE MERITS OF PAKISTAN'S CASE FOR DEBT RELIEF AT A LATER DATE.

5. FYI: FOREGOING EXPLAINS ECONOMIC REASONS FOR OUR NOT WISHING TO PARTICIPATE IN GOP DEBT-RESCHEDULING EXERCISE AT THIS TIME. OVER AND ABOVE THE ECONOMIC GROUNDS PROVIDED ABOVE, OF COURSE, IS THE NUCLEAR REPROCESSING ISSUE AND HOW IT RELATES TO THE GLENN AMENDMENT. LEGALLY, THE GLENN AMENDMENT DOES NOT APPEAR TO BE APPLICABLE WITH RESPECT TO DEBT RESCHEDULING. HOWEVER, THERE IS POLICY QUESTION OF WHETHER PROVIDING DEBT RELIEF TO A COUNTRY NOT ELIGIBLE TO RECEIVE U.S. ASSISTANCE WOULD BE APPROPRIATE AT THIS TIME. HOPEFULLY, BY POSTPONING GOP DEBT-RESCHEDULING EXERCISE UNTIL LATE IN YEAR, GLENN AMENDMENT WILL BE BEHIND US. VANCE

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